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Friday, 8 March 2019

Dr Kerry Schott
Chair
Energy Security Board

Dear Dr Schott

RE: ACCC Retail Electricity Pricing Inquiry Recommendation 41

ERM Power Limited (ERM Power) welcomes the opportunity to respond to the Energy Security Board's (ESB) consultation on recommendation 41 from the Australian Competition and Consumer Commission's (ACCC) Retail Electricity Pricing Inquiry.

About ERM Power

ERM Power is an Australian energy company operating electricity sales, generation and energy solutions businesses. The Company has grown to become the second largest electricity provider to commercial businesses and industrials in Australia by load¹, with operations in every state and the Australian Capital Territory. A growing range of energy solutions products and services are being delivered, including lighting and energy efficiency software and data analytics, to the Company's existing and new customer base. The Company operates 662 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland.

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General Comments

ERM Power has cautiously supported the introduction of a trade repository if it is deemed to be necessary, subject to the specific design of the model, to provide greater transparency on activity in the electricity contract market. We believe that this would enhance the transparency of contract markets and allow for the use of aggregated data to inform policy development. In our submission on recommendation 6, we argued that a low-cost trade repository could be implemented relatively quickly by leveraging the Australian Financial Markets Association's (AFMA) recently reinstated electricity market survey.

We argued that electricity market participants should report the same aggregated data to the Australian Energy Regulator (AER) as they do as part of the AFMA survey, but on a quarterly basis. This would provide market bodies and regulators with a greater degree of transparency of OTC contract markets at a far lower cost and lower risk than developing a new trade repository from scratch.

We accept that the ESB has chosen to reject recommendation 6 from the ACCC's Retail Electricity Pricing Inquiry to establish a trade repository due to "the expense of establishing and maintaining the repository, as well as the reporting burden on participants."²

¹ Based on ERM Power analysis of latest published financial information.

² Energy Security Board, 'ACCC Retail Electricity Pricing Inquiry Recommendation 41 Consultation Paper', February 2019, p 3.



However, the ESB is now examining whether a trade repository is necessary in order to allow the AER to fulfill its wholesale market monitoring functions. Should this consultation establish that a trade repository is in fact necessary for these purposes, then we reiterate our view that the simplest way to achieve this is to leverage the existing AFMA survey.

We believe that providing the AER with aggregated data on a quarterly basis, collected by AFMA as part of its industry survey, would be sufficient for the AER to fulfill its wholesale market monitoring function. It would provide a useful level of underlying data to the AER about the OTC market, complementing the existing ASX data. It would do so at a low cost and low reporting burden to participants.

ERM Power does not believe that a trade-by-trade repository is warranted. There is no evidence that trade-by-trade reporting would reduce risks to the wider market or bring a useful degree of transparency. Individual trade reporting would create a large imposition on market participants in terms of cost and the risk of exposing their contract positions to other market participants. Furthermore, bespoke trades can be complicated and nuanced, aiming to meet the unique requirements of both the buyer and seller. They are not necessarily reflective of underlying market trends that are relevant to pricing residential and most commercial and industrial customers.

Further, we reject the idea of granting the AER access to details of exchange-traded contracts that would allow it to determine the buyer and seller. The National Electricity Market (NEM) has a relatively small number of participants, most of whom have very sophisticated analytical capabilities. It is highly likely that the more granular the data available, the more likely it is for trades to be back-solved to identify the buyers and sellers. This is extremely likely when there is a change of ownership or a new generation facility opens, and in certain smaller NEM regions where only one or two participants are capable of making some volumes of trade available.

Please contact me if you would like to discuss this submission further.

Yours sincerely,

[signed]

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